

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: California Family Life Center (“CFLC”) 930 N. State Street Hemet, CA 92543 Riverside County</p> <p>Project Site: 25873 Hemet Street, Hemet, CA 92544</p> <p>Facility Type: Group Home</p> <p>Eligibility: Government Code section 15432(d) (14)</p> <p>Prior HELP II Borrower: Yes, and payments are current.</p>	<p>Amount Requested: \$213,750</p> <p>Requested Loan Term: 15-year fixed</p> <p>Authority Meeting Date: May 29, 2014</p> <p>Resolution Number: HII-286</p>
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Background: Established in 1982, CFLC is a non-profit organization providing 30 years of experience servicing juvenile offenders, group home youth, foster children, kin care youth, high school dropouts and pregnant/parenting teens. Through its residential treatment program, CFLC serves over 143 adolescent boys and girls every year. Along with its corporate office and three group homes located in Riverside County, CFLC also operates two group homes in San Diego.

Uses of Loan Proceeds: Loan proceeds will be used to purchase an existing building currently leased by CFLC located at 25873 Hemet Street, Hemet CA 92544. The property is currently licensed as a group home. According to CFLC’s management, the purchase will translate into an estimated savings of approximately \$7,680 per year.

Financing Structure:

- 15-year fixed rate.
- 180 equal monthly payments of approximately \$1,476 (yearly payments of approximately \$17,713).
- Corporate gross revenue pledge.
- First (1st) lien position on the property located at 25873 Hemet Street, Hemet CA 92544.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 95%).
- Verification of borrower funds to close escrow.

Financial Overview: The income statement for CFLC appears to exhibit adequate operating results during the review period. CFLC’s balance sheet appears to be financially healthy with a proforma debt service coverage ratio of 3.57x.

Estimated Sources of Funds:

HELP II Loan	\$ 213,750
Borrower Funds	18,422
Total Estimated Sources	<u>\$ 232,172</u>

Estimated Uses of Funds:

Real Estate Purchase	\$ 225,000
Financing costs	7,172
Total Estimated Uses	<u>\$ 232,172</u>

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.

Parties of Interest: Orange Coast Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-286 for CFLC in an amount not to exceed \$213,750 for a term not to exceed 15 years, contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with staff recommendation.

I. PURPOSE OF FINANCING:

CLFC requests \$213,750 to purchase a building that CFLC is currently leasing located at 25873 Hemet St, Hemet CA 92544. The property is licensed as a group home and CFLC has been providing services to youths for over 30 years at this location. The purchase will reduce CLFC monthly expenses from \$2,116 (the current lease payment) to \$1,476, the new mortgage payment, for an estimated annual savings of \$7,680. CFLC believes it is a great opportunity to build equity and improve cash flow.

***Real Estate Purchase*..... \$225,000**

CLFC plans to purchase its existing leased building of approximately 2,900 square feet where CLFC will continue the operation of its six-bed group home to provide services to children from ages 13-17 who have a lack of a stable home environment and who also may be experiencing substance abuse and mental health issues. Please note, the property will not be used for Foster Family purposes (as disallowed by CHFFA’s statute).

The HELP II loan will be secured by a first (1st) lien position on the above referenced property. According to CFLC’s management, the property has a current market value of approximately \$225,000, leading to an estimated loan-to-value ratio of 95%. A full appraisal, acceptable to the Authority’s staff, will be required before the HELP II loan may be funded.

***Financing Costs*..... 7,172**

Title and Escrow Fees	\$4,500
Authority Fees.....	<u>2,672</u>

***Total Uses of Funds*..... \$232,172**

II. FINANCIAL STATEMENTS AND ANALYSIS

CALIFORNIA FAMILY LIFE CENTER CONSOLIDATED STATEMENT OF OPERATION (UNRESTRICTED)

	As of June 30,		
	2013	2012	2011
Revenue:			
Foster care fees	\$ 3,530,337	\$ 2,503,635	\$ 2,564,745
Board and care fees	2,933,099	3,355,133	3,168,199
Other governmental assistance	2,832,539	2,874,809	4,161,877
Contributions	47,748	34,996	11,897
Net assets released from program restrictions	30,843	59,802	48,722
Administrative fees	25,530	19,130	14,366
Miscellaneous	15,511	965	3,773
Gain on sale of fixed assets	9,023	245	11,319
Change in value of investments	3,730	788	-
Interest income	3,505	2,828	3,243
Total revenue*	<u>9,431,865</u>	<u>8,852,331</u>	<u>9,988,141</u>
Expenses:			
Salary and wages	3,967,317	4,150,361	4,912,593
Program services and supplies	2,677,487	1,930,960	1,907,419
Payroll taxes and employee benefits	899,728	792,306	884,670
Facilities rent	391,156	393,497	416,454
Worker Investment Contract - payments	253,069	292,973	391,265
Telephone and utilities	206,047	199,075	215,907
Repairs and maintenance	167,355	187,933	178,061
Insurance	133,581	168,126	180,272
Miscellaneous	101,109	77,884	72,589
Professional fees and licensing	88,998	76,775	94,562
Depreciation	87,328	84,648	77,965
Conferences and training	84,752	106,366	168,299
Vehicle expenses	82,258	87,723	88,050
Equipment leases and expenses	51,782	29,243	28,870
Grant-fund capital improvement expenses	44,266	45,861	17,281
Advertising and recruiting	21,920	17,035	18,599
Postage, mailing and other supplies	21,379	21,713	20,286
Interest expense	18,307	17,618	8,759
Others	1,509	19,861	22,729
Total expenses	<u>9,299,348</u>	<u>8,699,958</u>	<u>9,704,630</u>
Increase in unrestricted net assets	132,517	152,373	283,511
Unrestricted net assets at beginning of year	2,411,111	2,263,850	1,980,339
Adjustments**	-	5,112	-
Unrestricted net assets end of year	<u>\$ 2,543,629</u>	<u>\$ 2,411,111</u>	<u>\$ 2,263,850</u>

*Please see page 4 for payor sources.

**Temporarily items included in unrestricted.

***Revenues for FYE June 30, 2013**

<u>Payors Source</u>	<u>Percent</u>
Group Homes	32
Foster Care	36
Youth Job Training	25
Administration	5
Kin Care	<u>2</u>
Total	<u><u>100</u></u>

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**CALIFORNIA FAMILY LIFE CENTER
CONSOLIDATED BALANCE SHEET**

	As of June 30,		
	2013	2012	2011
Current assets:			
Cash and Cash Equivalents	\$ 1,750,596	\$ 1,832,819	\$ 1,733,201
Investments	150,909	49,845	49,132
Account receivable - net	1,216,578	1,083,417	994,660
Prepaid expenses	52,529	52,459	68,793
Total current assets	3,170,612	3,018,540	2,845,786
Property and equipment, net	957,924	916,129	562,981
Deposits	18,138	18,138	15,763
Total assets	4,146,674	3,952,807	3,424,530
Current liabilities:			
Accounts payable	\$ 421,210	\$ 325,866	\$ 325,965
Accrued expenses	331,381	303,232	309,035
Current portion of long-term debt	37,819	37,819	18,258
Deferred revenue	33,555	44,707	33,826
Other accrued liabilities	208,913	216,670	139,817
Total current liabilities	1,032,878	928,294	826,901
Long-term debt	522,461	560,327	265,377
Total liabilities	1,555,339	1,488,621	1,092,278
Net assets:			
Unrestricted	2,543,628	2,411,111	2,263,850
Temporary restricted	46,857	52,225	67,552
Permanently restricted	850	850	850
Total net assets	2,591,335	2,464,186	2,332,252
Total liabilities and net assets	\$ 4,146,674	\$ 3,952,807	\$ 3,424,530

Financial Ratios:

	Proforma ^(a)			
	FYE June 30, 2013			
Debt Service Coverage - Operating (x)	3.57	4.24	7.10	13.98
Debt to Unrestricted Net Assets (x)	0.30	0.22	0.25	0.13
Margin (%)		5.00	4.90	5.40
Current Ratio (x)		3.07	4.24	4.14

(a) Recalculates FY 2013 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

CFLC’s income statement appears to exhibit adequate operating results during the review period.

The declining change in unrestricted net assets over all three FYs nevertheless appears to exhibit adequate operating results (ranging from approximately \$283,511 in FY 2011, \$152,373 in FY 2012 and \$132,517 in FY 2013). According to CFLC, the decreasing trend is mainly attributed to a reduction in governmental assistance from approximately \$4.2 million in FY 2011 to \$2.8 million in FY 2012. However, CFLC remains in a positive operating position which CFLC primarily attributes to 1) an increase in foster care services from approximately \$2.5 million FY 2011 to \$3.5 million in FY 2013; and 2) a reduction of overall expenses from approximately \$9.7 million in FY 2011 to \$9.3 million in FY 2013 for salary and wages, conference training, and subcontractor payments.

Particular Facts to Note:

- According to CFLC’s management, foster family payments increased from approximately \$2.6 million in FY 2011 to \$3.5 million in FY 2013 mostly due to increasing referrals of children from 360 in FY 2011 to 493 in FY 2013.
- In FY 2010-2011, CFLC received significant federal stimulus dollars in governmental assistance afforded through the American Recovery and Reinvestment Act. The funding allowed CFLC to hire approximately 10 temporary employees to oversee youth placed job sites and to pay training wages for a large summer job program. In addition, the funding allows CFLC to provide year round job training, educational, and employability skills to youth in three incorporated areas of Riverside. However, the funding in governmental assistance decreased from approximately \$4.2 million in FY 2011 to \$2.8 million in FY 2012 mainly attributed to the reduction in federal stimulus dollars. According to CFLC, they do not yet know whether there will be Federal Legislation funding for job training this coming summer.
- Salary and wages decreased from approximately \$4.9 million in FY 2011 to \$3.9 million in FY 2013, due primarily to a decrease of the governmental assistance that funded the Summer Work Programs. According to CFLC’s management, the Summer Work Programs were staffed by temporary CFLC employees and the participants in these programs earned training wages.
- Program services and supplies increased from approximately \$1.9 million in FY 2011 to \$2.6 million in FY 2013, due to an increase in foster children services from 360 in FY 2011 to 493 in FY 2013.
- Conference and training decreased from \$168,299 in FY 2011 to \$84,752 in FY 2013, mainly attributed to the reduction in governmental assistance from \$4.1 million to \$2.8 million that funded the temporary summer job training program.

Financial Discussion – Statement of Financial Position (Balance Sheet)

CFLC's balance sheet appears to be financially healthy with a proforma debt service coverage ratio of 3.57x.

CFLC's total unrestricted net assets increased by 12% from approximately \$2.2 million in FY 2011 to \$2.5 million in FY 2013. CFLC primarily attributes the increase to a property purchase in FY 2011 and an overall increase in accounts receivable for foster care services from 360 in FY 2011 to 493 in FY 2013. With this proposed financing, CFLC's proforma debt to unrestricted net asset ratio remains lowly leveraged at .30x, while the proforma debt service ratio decreases slightly from 4.24x to 3.57x, indicating CFLC should be able to repay the HELP II loan.

Particular Facts to Note:

- According to CFLC's management, account receivables increased from \$994,660 in FY 2011 to \$1.2 million in FY 2013 primarily due to an increase in foster family services from 360 in FY 2011 to 493 in FY 2013.
- According to CFLC's management, accounts payable increased from \$325,866 in FY 2012 to \$421,210 in FY 2013, due to an increase in foster parent payments for an increase of services for foster children.

EXHIBIT 1
UTILIZATION STATISTICS

(Clients Served)

	<u>As of June 30,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Clients Served	143	156	152

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EXHIBIT 2
OUTSTANDING DEBT

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding ^(a) As of June 30, 2013</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
- EXISTING			
LONG-TERM DEBT:			
CHFFA HELP II Loan, August 2009	\$ 320,000	\$ 228,857	\$ 228,857
CHFFA HELP II Loan, August 2011	346,700	297,528	297,528
 - PROPOSED NEW DEBT:			
CHFFA, HELP II Loan			213,750
- TOTAL DEBT		<u><u>\$ 526,385</u></u>	<u><u>\$ 740,135</u></u>

(a) Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

CFLC is a non-profit agency incorporated in 1982. In the beginning, the group homes were the core services for youth that otherwise would have been out on the streets or placed in juvenile hall. CFLC continues to provide residential treatment facilities housing for 32 adolescent girls. Also, CFLC acquired two residential treatment homes for 12 adolescent boys in the Escondido area. Through residential treatment programs (Group Homes), CFLC serves 143 adolescent boys and girls every year. CFLC currently operates five group homes and a corporate office in Riverside and San Diego counties.

Other CFLC programs include: job training and education, foster family agency services, a parents as teacher program, and a MY L.I.F.E program (Living Independently Fostering Excellence). These programs provide additional and continuing services to group home and other 'at risk' youth.

Licensure, Certification and Accreditation

CFLC is licensed by the California Department of Social Services to operate and maintain Group Homes and the proposed building being purchased has a current license at this location. The building being purchased will be licensed by the California Department of Social Services as a Group Home for up to 6 children.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-286

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **California Family Life Center** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **\$213,750** for a term not to exceed **15 years** for the purpose described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year fixed rate;
2. First (1st) lien position on property located at 25873 Hemet Street, Hemet CA 92544;
3. Loan to value ratio not to exceed 95%;
4. Corporate gross revenue pledge;
5. HELP II loan will not be used for foster family agency purposes;
6. Completed appraisal acceptable to the Authority staff; and
7. Verification of Borrower funds to close escrow.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six (6) months from the date of approval.

Date of Approval: _____